

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 OIC-02 XMB-02 STR-07 AID-05 CEA-01
CIAE-00 COME-00 EB-08 EA-10 FRB-03 INR-10 IO-13
NEA-11 NSAE-00 OPIC-03 SP-02 TRSE-00 LAB-04
SIL-01 AGRE-00 OMB-01 SS-15 INRE-00 NSCE-00 SSO-00
L-03 /114 W

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O P 112043Z MAY 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 1401
INFO AMEMBASSY ANKARA PRIORITY

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USOECD

E.O. 11652: N/A
TAGS: EFIN, EAID, TU, OECD
SUBJECTL TURKISH CONSORTIUM MEETING AND DEBT ISSUE:
CONVOCATION AND AGENDA FOR MAY 17 MEETING

REF: A) PARIS 15061, B) TC/288, C) CONSORTIUM/TURKEY
/A(78)2, D) CONSORTIUM/TURKEY(78)10

1. INTRODUCTION. SUBSEQUENT TO DISPATCH OF REFTEL,
MISSION RECEIVED LETTER (REF B) FROM CHAIRMAN OF
TURKISH CONSORTIUM (GIEL) WHICH IS REPRODUCED IN PARA
2 BELOW. ANNEXED TO LETTER ARE AGENDA FOR MAY 17
MEETING, BEGINNING AT 3 PM, AND DRAFT MANDATE FOR
AD HOC GROUP (REFS C AND D RESPECTIVELY). AGENDA IS
REPRODUCED IN PARA 3 BELOW. MISSION COMMENTS APPEAR
IN PARA 4 BELOW.

2. BEGIN TEXT OF GIEL LETTER

(1) AT THE LAST OF THE TWO INFORMAL CONSORTIUM MEETINGS
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IN WHICH WE DISCUSSED TURKEY'S FOREIGN DEBT PROBLEM
WITHOUT TURKISH REPRESENTATIVES BEING
PRESENT, IT WAS AGREED TO HOLD A FORMAL MEETING OF THE
CONSORTIUM IN THE WEEK FOLLOWING WHITSUN WITH A VIEW IN
PARTICULAR TO SETTING UP A WORKING GROUP WHICH COULD
NEGOTIATE WITH THE TURKISH AUTHORITIES AN AGREEMENT
CONCERNING THE RESCHEDULING OF TURKEY'S EXTERNAL DEBT.

I AM NOW ABLE TO INFORM YOU THAT THIS MEETING WILL TAKE PLACE ON WEDNESDAY, 17TH MAY, AT 3.00 P.M. AT THE CHATEAU DE LA MUETTE. IN CASE WE ARE UNABLE TO FINISH THE BUSINESS ON THE AGENDA ON THAT DAY, THE MEETING WOULD CONTINUE THE FOLLOWING MORNING. THE AGENDA FOR THE MEETING IS ATTACHED (ANNEX 1).

(2) I THINK THAT THE DISCUSSION SHOULD CENTRE MAINLY ON TWO SPECIFIC TOPICS. FIRST, THE RESTRUCTURING OF TURKEY'S FOREIGN DEBT WHICH HAS NOW REACHED THE SUM OF \$13 BILLION (SEE POINT 3 OF THE AGENDA). SECOND, HOW TO PROVIDE THE TURKISH ECONOMY WITH THE NECESSARY IMPORTS FOR KEEPING UP SOME REASONABLE MEASURE OF ECONOMIC ACTIVITY IN THE NEAR FUTURE, IN VIEW OF THE FACT THAT TURKEY IS NOT ABLE AT THIS STAGE TO RAISE THE REQUIRED FOREIGN EXCHANGE FOR THIS PURPOSE.

(3) AS TO THE FIRST POINT, YOU WILL RECALL THAT A MAJORITY OF COUNTRIES HAD PRESENTED A DRAFT MANDATE FOR SETTING UP AN "AD HOC GROUP" TO DEAL WITH THE TURKISH DEBT ACCORDING TO ESTABLISHED CREDITOR CLUB PROCEDURES (SEE ANNEX 2). SINCE THEN, MR. WOOTTON AND THE CONSORTIUM MANAGEMENT HAVE HAD THE OPPORTUNITY TO DISCUSS THIS MANDATE WITH THE TURKISH MINISTER OF FINANCE, MR. MUEZZINOGLU. IT IS MY DUTY TO INFORM YOU THAT THE LATTER PROPOSES SEVERAL CHANGES IN THE DRAFT LIMITED OFFICIAL USE

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MANDATE. IN GENERAL, HE FELT THAT ONE SHOULD STRESS MORE CLEARLY THAN HAS BEEN DONE IN THE DRAFT THAT THE TASK OF THE CONSORTIUM IS TO ASSIST TURKEY AS A MEMBER COUNTRY OF THE ORGANISATION AND, FOLLOWING FROM THIS, AVOID LINKING THE RESCHEDULING EXERCISE TO THE SO-CALLED CREDITOR CLUBS. HE SPECIFICALLY REFERRED TO THE MANDATE GIVEN TO THE CONSORTIUM AT THE BEGINNING OF THE 1960S AND STRESSED THAT HE DID NOT SEE THE NECESSITY FOR CHANGING THE MANDATE NOW. HE ALSO STRESSED THAT TURKEY WOULD FOLLOW THE POLICIES IT AGREED WITH THE MONETARY FUND ON 24TH APRIL 1978 AND HE HOPED THAT MEMBERS RECOGNISED THE SERIOUSNESS OF TURKEY'S INTENTIONS.

(4) YOU WILL REALISE THAT, GIVEN THE STANCE OF THE TURKISH SIDE, WE MAY EXPECT A DIFFICULT DISCUSSION AT THE FORTHCOMING MEETING ON THE QUESTION OF THE MANDATE TO BE GIVEN TO THE GROUP TO BE ESTABLISHED BY THE CONSORTIUM ON TURKEY'S DEBT, AND THERE WOULD SEEM TO BE A NECESSITY TO COMPROMISE ON BOTH SIDES OF THE TABLE. I THINK YOU WOULD AGREE WITH ME THAT IT WOULD BE RATHER UNHELPFUL UNDER THE CIRCUMSTANCES TO HAVE A PROLONGED ORGANISATIONAL OR TECHNICAL DISCUSSION AT A

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PLENARY MEETING OF THE CONSORTIUM. IT IS FAR MORE
IMPORTANT TO CONCENTRATE ON THE SUBSTANTIVE ISSUE
INVOLVED, NAMELY TO ASSURE THAT TURKEY'S FUTURE DEBT
SERVICE WILL NOT PUT AN INSUPPORTABLE BURDEN ON
THE ECONOMY AND JEOPARDISE THE GOVERNMENT'S STABILIZA-
TION PROGRAMME.

(5) AS TO THE SECOND POINT MENTIONED (SEE POINT 4 OF
THE AGENDA), WE SHALL NO DOUBT RECEIVE FROM THE
TURKISH DELEGATION A PLEA FOR REOPENING GUARANTEED
IMPORT CREDITS. SOME RESPITE HAS BEEN GIVEN TO TURKEY,
NO DOUBT, BY THE DISBURSEMENT OF APPROXIMATELY
\$150 MILLION UNDER THE AGREEMENT WITH THE IMF. THE
OUTLOOK FOR FURTHER CONTRIBUTIONS TOWARD IMPORT FINANC-
ING, HOWEVER, IS LESS CERTAIN. AS YOU KNOW, THE
TURKISH AUTHORITIES ARE NOW NEGOTIATING WITH INTER-
NATIONAL BANKS A \$500-\$600 MILLION LOAN. THERE ARE
ALSO DISCUSSIONS WITH THE WORLD BANK FOR A PROGRAMME
CREDIT OF SOME \$100 MILLION. HOWEVER, THESE FACILITIES
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WILL PROBABLY ONLY BE AVAILABLE TO TURKEY AT THE EARLIEST IN THE AUTUMN. MEANWHILE, TURKEY MAY HAVE SERIOUS PROBLEMS IN KEEPING FACTORIES SUPPLIED WITH RAW MATERIALS AND SPARE PARTS.

(6) I AM WELL AWARE THAT IT MIGHT BE DIFFICULT TO REACH A SATISFACTORY SOLUTION ON BOTH ISSUES, WHICH ARE EVIDENTLY INTERCONNECTED, AT THE FORTHCOMING MEETING. WE THEREFORE NEED TO BE PREPARED TO ENVISAGE A SERIES OF FURTHER CONSORTIUM MEETINGS IN THE NOT TOO DISTANT FUTURE.

END TEXT

3. BEGIN TEXT OF AGENDA

(1) ADOPTION OF THE AGENDA C/T/A(78)2

(2) THE TURKISH ECONOMIC SITUATION
(WITH SPECIAL REGARD TO THE BALANCE
OF PAYMENTS AND THE FOREIGN DEBT PROBLEM)
DOCUMENTS:
TURKEY'S EXTERNAL DEBT POSITION AS
OF 31ST DECEMBER 1976 C/T(78)6

CURRENT ECONOMIC TRENDS AND THE
EXTERNAL PAYMENTS CRISIS IN TURKEY C/T(78)8

(3) THE SETTING-UP OF A GROUP TO DEAL WITH
TURKEY'S FOREIGN DEBT
(SEE DRAFT MANDATE) C/T(78)10

(4) FUTURE CONSORTIUM ASSISTANCE
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(GUARANTEED EXPORT CREDITS AND OTHER LOANS)

(5) OTHER BUSINESS

END TEXT.

COMMENT: MISSION UNDERSTANDS THAT ABOVE LETTER AND AGENDA NOT SHOWN TO WOOTTON BEFORE CIRCULATION. IN ANY CASE, EVIDENT THAT CONSORTIUM MANAGEMENT (GIEL AND KUEHN) CONTEMPLATE THAT IN ADDITION TO LAUNCHING DEBT RESCHEDULING, CONSORTIUM SHOULD BE PREPARED TO HAVE AT LEAST PRELIMINARY DISCUSSION OF POSSIBILITIES FOR "NEW MONEY" UNDER ITEM 4 OF AGENDA. NOT CLEAR WHETHER GIEL WILL

BROACH THIS SUBJECT ON MAY 17 OR PERHAPS BRING IT UP IF
CONSORTIUM MEETS AGAIN (E.G., MAY 20) TO HEAR RESULTS OF
FINAL RESCHEDULING. WOOTTON SUGGESTS MAY BE USEFUL HAVE
INFORMAL MEETING (E.G., MAY 19) TO DRAFT COMMUNIQUE
LANGUAGE THAT MIGHT BE ISSUED BY CONSORTIUM AT END OF
SUCH MEETING. WITH RESPECT TO LONGER-RUN ROLE FOR CON-
SORTIUM, GIEL HAS EXPRESSED INTEREST IN MEETING BILATER-
ALLY WITH U.S. DEL TO CLARIFY U.S. THINKING AND
"MISUNDERSTANDINGS". ALTERNATIVELY, HE FEELS IT MIGHT
BE USEFUL FOR U.S. TO CIRCULATE A NOTE ON THIS SUBJECT.
KATZ

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